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EAST EUROPE REPORT

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DEVELOPMENT TREND IN CASSETTE DISC MEMORIES IN CSSR NOTED

Prague REVUE OBCHODU/PRUMYSLU/HOSPODARSTVI in Czech No 6, 1983 p 14

[Article by fh and jt: "Development Trend for Cassette Disc Memories in the CSSR"]

[Text] An indispensable part of contemporary computer systems are disc memories, which belong to the basic peripheral equipment for computers. In the 1970's, Brno Zbrojovka became the monopoly producer of this equipment in the CSSR. Beginning the production of this type of memory was the foundation for the further development and production of these hard to obtain peripherals.

The actual research work on disc memories was initiated during the 1960's at the Research Institute for Mathematical Equipment in Brno, where a collective of researchers worked out in a short time the foundations for the actual developmental work. This was begun at the Brno Zbrojovka in 1969. The problem-solving team mastered all of the problems of the assignment relatively quickly, and in 1975 had prepared comprehensive production documentation for the initiation of mass production of the DP 4 disc memory with a 7.25 megabyte capacity. This type of memory, with a solid disc pack, was the predecessor of current cassette disc memories. During 1976, this collective of developmental workers began preliminary work on the development of the first cassette disc memory designed for the JSEP computer. This type of memory, the KDP 720 with a capacity of 3 megabytes, which was produced until 1978 under the international designation EC 5069, is being produced by Zbrojovka Brno in several variants (KDP 7201, KDP 7202, KDP 7203), which are differentiated by the actual organization of the memory, the controlling units and the external power source. At the same time, in 1977 work has begun on the development of peripheral equipment designated for the SMEP computer, and today we already have the KDP cassette disc memory with a capacity of 6 megabytes, otherwise known as the CM5403. At the Brno Zbrojovka in 1978 a new development center was founded for enterprise-technical development--the Cassette Disc Memory Center. In a very short time a higher order memory was developed here for the SMEP (the KDP 721). This was prepared for international tests in Bratislava in 1978, and complete production documentation was simultaneously provided for the planned start-up of mass production on 1980. At the same time, development was begun on other types of cassette memories for the

SMEP--the KDP723 and the KDP 7231 (with a capacity of 6 megabytes), which took full account of consumer requirements while being already comparable in their class with memories of state of the art producers. This type of memory is to be produced for the first time this year. It is not without interest that all types of these memories are designed for the collating from the front of interchangeable discs (cassettes), and are the sole representative of memories with this type of collating produced by the CEMA countries.

This newly developed memory from the line of cassette recording equipment--the KDP 723--is distinguished from previous types by its lower energy intensiveness, weight, and its simultaneously greater reliability and safety of operation and new external finish. The memory is hooked up to already existing sources, and has been designed as an interchangeable module. Newly utilized wiring of the emergency circuits assures maximum protection for the magnetic discs, including the reading and recording heads. During the development of this memory, emphasis was placed on having the component base be readily available from domestic sources or from imports from socialist countries. The actual memory is designed to be built into computer units (such as the SM-3, SM-4), and the model DKP 7231 in its cabinet version is for a so-called table installation at a computing center. A variant of this memory which has been prepared--and an accessory for the KDP 723--is designated for table use and as an accessory for the KDP 7231 itself.

Another memory designed and manufactured at Zbrojovka will be the KDP 724 recorder, with a 6 megabyte capacity and designed for cassette collation from above. This model will probably be the last piece of equipment produced according to traditional technology.

Increasing requirements for capacity and reliability in cassette disc memories, incorporated into ever more improved computer systems, necessarily requires the use of more progressive technologies. At Brno Zbrojovka, a shift is being considered to the Winchester technology, which however brings with it uncompromising demands on the quality of the basic components of the memory (the magnetic discs, the readout and recording heads), and last but not least on the outfitting of the development center and overall organizational preparedness. The significant scope and sophistication of such a task will require broad cooperation and significant support for the disc program on a nationwide scale.

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GREATER USE OF COMPUTERS URGED; POTENTIAL EVALUATED

Prague HOSPODARSKE NOVINY in Czech 25 Aug 83 p 4

[Article by Dr Vlastimil Homolka, Doctor of Science Candidate, enterprise director, Computing and Organizational Service [PORS], Prague: "In Reserve, 100 Computers; Potential of the Barriers to Improved Use of Computer Technology"]

[Text] To date, the sole generally applied indicator of computer efficiency is machine time utilization. Computers in the CSSR operate from a time capacity equal to not quite two-shift operation annually. This is not enough, a fact that is repeatedly stated. But no improvement occurs. At the same time, billions of korunas are being invested in this equipment.

Time capacity is understood to be two-shift operation over a 5-day workweek, or 4,140 hours per year. This capacity, however, is not being fully utilized, although even it will not be sufficient in the future. The world economy demands uninterrupted, three-shift operation, even during days off.

Computers at individual computing centers are used roughly 2 hours less per day than those in the networks of computing centers. If they would be operated for the same amount of time as those in the computing center networks, machine time equivalent to more than 100 computers would be gained.

Mere exhortations, however, will not increase utilization if greater care is not taken in the establishment of new computing centers and if prior research is not done on the question of whether or not a given task could be handled by existing processing facilities, which would be faster and less expensive.

Advantages of Specialization

In the programmatic guidelines for the implementation of computer technology approved by CSSR Government Resolution No 386 on 21 December 1977, it is recommended that "the services be utilized of specialized computing

organizations (for instance the Computer Technology Enterprise of the Czech Statistical Office, the Computing and Organizational Service of the Ministry of Commerce) in the interest of reducing the demands on individually installed computer systems and creating the foundations for the rational transmittal of data within existing or projected systems of computing centers, with the objective of increasing the efficiency of computer technology...and beyond this goal, to merge investment resources and limits for the joint construction of computing centers..."

The application of computer technology, just as other fields, must be carried out at a high professional level if it is to be successful. Specialized computing organizations have more than a 20- or 30-year tradition, and during this time have mastered the techniques for working with all developmental types of computing technology, from punched-card systems through punched-card and magnetic tape computers right through terminal networks with the machines of newer generations.

For these reasons, the above-cited government resolution remains highly justified and has lost none of its pertinence.

The hooking up of enterprise computing centers to the networks of specialized computing organizations in no way means that the technology would be concentrated elsewhere. This is a matter of its professional management, not of its relocation.

The computing center at the large warehouse of the retail food industry at Prague-Ruzyně belongs to the operations of this warehouse, operates on real time with inputs and outputs on terminals, and therefore is generally comparable to computing centers for production processes. This center is a component of the network of factories of PORS and conforms to its standards. It is also quite possible that a computing center which is a mechanism for the operational management of a user organization could belong to the network of computing centers of the processing organization. The user would be rid of the concern regarding computing technology, and the network would guarantee its professional level and profitability.

The number of disruptions and amount of down time is significantly less in the network of computing organizations than at individual enterprise computing centers. Fewer problems and their rapid rectification results from the in-house service capability of the centers. One of the computing facilities, you see, is entrusted with providing, in addition to its processing activities, technical service for the computing and other equipment at the other computing centers, and to maintain for this purpose a warehouse of spare parts. The designated facility specializes in technical service of a specific type for the other facilities of the network (data collection equipment, with another one handling organizational automats, another minicomputers, etc.). Only in this way can a smaller number of specialists do more, because the demands are less on the spare parts mix and for inventory financing. The operation of the network in this area is also more productive, and assertion which may be easily proven.

Two Heads Are Better Than One

Likewise, in the provision of technical service there are reserves the activation of which in the future will lead to still greater rationalization and better performance. Technical service will be organized independently so that a service center will provide technical maintenance and trouble-shooting for all systems and users in a given territorial area. Until this is in place, the most reliable service is from the network of computing centers. It is quick and inexpensive.

Because computer technology also has its own construction requirements, it turned out to be essential when designing these facilities to concentrate this function in a special division and to provide it centrally for the entire network. In this way all attained experiences are utilized, both those pertaining to the preparation of facilities and those related to taking facilities over from contractors.

A similar situation applies to program preparation. Work is performed on them by teams composed of experienced professionals from individual facilities. This increases the certainty that a program will be completed on time and in a quality fashion, while also offering the possibility of training beginners by having them work along with workers. Understandably, computing centers independent of the network do not and cannot have such conditions.

Labor productivity is higher at computing organizations than an individual computing centers, for a number of reasons. The most important of these is the principle of independent, earnings-oriented management which leads the centers to the better utilization of their machine and workforce capacities.

It would, however, be an error to consider them as the only correct organizational form from data processing. They have proven their worth for computers that are service and maintenance intensive and which require complicated program preparations. On the contrary, the character of automated assignments is not always critical, even though the specialization of processing organizations is of some importance.

From the viewpoint of processing data, there is not a great difference between the production of semifinished kitchen goods and of bricks, the more so because at present the predominant agendas are those which bear all the signs of administration (administrative tasks) and therefore are not specific as to whether they concern a production or nonproduction branch. The first computer entries, and this certainly is proper, have been of extensive documentation and summaries along with logical approaches and established selections and operations with nondemanding calculations. These tasks may be performed by any computing center at all in the form of invoiced deliveries of the computing work. It is not of paramount importance whether a given center is always specialized in a certain type of activity, even though this is not absolutely true.

Everyone for Himself?

As an organization with more than 30 years of experience in the field of the processing of aggregated data, we offer assistance to beginning computing centers.

A certain production enterprise approached us with a request for this kind of assistance. It had investments in plant and equipment for the setting up of a computing center and was committed to making it a reality. The center was to begin operations in 2 years, which for a novice is not such a long time.

When we heard what the objective was of their considerable efforts, which had entailed much analytical and programming work, the recruiting of technicians, programmers, computer operators, and many other problems, we wanted to help them in our way with an interesting offer: We can do the processing you want on a contract basis. Starting when? In 6 weeks!

Almost immediately they lost interest in any further cooperation. They wanted their own computing center.

The foregoing is typical of the genesis of many enterprise computing centers, even though many of them now are of very high quality. But the low utilization level of computer systems, which is a general and ongoing phenomenon, may be laid clearly at their doorstep, and it cannot be shown that this is caused solely by the unreliability of the machines. After all, the processing organizations have the same equipment.

The network of computing centers is a compact entity focused on a common objective. It is therefore possible to organize among individual facilities a network of mutual interchangeability not only for emergencies, but also for cases when it is necessary to handle unusual assignments. This relates as well to the arrangement of input information. Interchangeability leads to greater machine utilization and lower demands for numbers of workers and for investment. When there is a computer failure, the job may be transferred to another computing center of the network thereby assuring, even under difficult circumstances, that the job will be finished on time and in a quality manner. There is greater opportunity for creative problem solving made possible by the central management of the machinery stock.

User and Processor

In the future, the user should be capable of operating a minicomputer and certain other systems himself. But he will not be up to the rapid and quality preparation of jobs for these machines, of programming them for assignments, or providing technical maintenance without professional organizations. These services should be provided by current processing organizations in addition to their mission of operating large computer systems.

Users and processors must have at their disposal technology which will be sufficiently reliable and resistant to errors and disruptions, the amount of which should fluctuate well below one percent of machine time. To the extent that computer systems exceed this limitation, the risk associated with the introduction of complex and sophisticated programs increases.

Programs for the daily routines of retail trade, for instance, have 265,000 instructions and their processing takes 7 and more hours daily. Hourly results determine the dispatch of goods from large warehouses to stores as well as today's operationally very complex functioning of domestic commerce. The same is true in other branches of the national economy, although the scope of existing programs and the dependence of user organizations on computers in our retail trade is unique.

Malfunctions and machine time outages can have unpleasant consequences. Malfunctions occur in even very advanced machines, but within the network of computing centers the unpleasant consequence of a malfunction is often to a large extent or completely eliminated through mutual assistance within the facility and among the computing centers, so that the user does not experience the machine time outage.

Generally, we are lacking machine capacity, and even so sometimes only a little of the computer is utilized. This situation is the result mainly of inadequate preparation and also of the fact that too great a reserve is left for machine outages, so that there will be space for back-up processing.

Operational stability is a priority objective for the computing centers. The reliability of the processing system is also affected by such realities as the smoothness of electrical energy deliveries. Disruptions in these deliveries means that a program must return to a certain point, machine time consumption increases, meaning that work must be paid off to a certain hour, causing as well undesirable tension at the workplace.

Spare parts are a notorious problem, especially for machines of the second generation. Machine capacity utilization is uneven, meaning that there are operational peaks when there is too much work as well as dips when there is too little work for the computing center. It is difficult to achieve an equilibrium in machine capacity use. For instance, the computation of wages is set for certain days, as well as the processing of monthly, quarterly, and other time series information necessary for planning and other management decisions.

A New Economic Sector

Computer technology has become a civilizational phenomenon of our epoch, and is the fastest growing of all economic sectors. The numbers and capabilities of computers is growing, at the same time that servicing them is becoming easier. Minicomputers with the characteristics of previously larger systems will be able to be operated by two female

operators, one in the morning and another on the afternoon shift. Preventive maintenance is unnecessary, technical service is contracted for and must be available on an on-call basis. On systems with direct access through terminals the user with no programming experience has expanded influence.

The problem remains, however, of the initial phase of putting computers into service. In spite of certain improvements it has not proved possible to ease this work significantly. The analytical and programming preparation continues to require many highly qualified people, and the writing of programs takes months and sometimes years. In complicated economic conditions users cannot afford to purchase machines that would sit in boxes for even a short time, or the complex applications of which would be solely their own concern.

For this reason the computer manufacturers who can offer software along with their machines are the ones having commercial success. In recent years a new economic sector has appeared throughout the world--the so-called software industry. We have a precise translation for "software" in "programove vybaveni" and "industry" may be translated as "prumyslove odvetvi."

A literal translation of both concepts does not express very satisfactorily when they are joined together, the thought which is hidden behind them, because it really is a matter of anew industrial branch which is equally as important as the sectors producing steel or televisions or the automobile industry. It would be possible to use, with a little poetic license, the expression "industrial programming," the main goal of which is the filling of the gap which has arisen and is gradually widening between the number of computers of all types and sizes being produced and the human workers who are supposed to apply them.

The Japanese are at the forefront of these efforts, as they are in so many other endeavors. Independent software organizations are merged at the national level where they are represented by two associations, the Japan Software Industry Association [JSIA] and the Japan Information Processing Centers Association [JIPCA]. Both associations were organized with the support of the Ministry for Foreign Trade and Industry and represent the commercial interests of organizations the main activity of which is industrial programming.

Programming performance may differ between employees working under the same conditions to an extent which may not be compared with any other profession. Finished programs for the solution of the same assignment may fundamentally differ from each other not only in their concept, but in their length as well. A given programmer will take up disproportionately more machine time than another programmer on the same problem. This is the reason that a computing center attempts to measure the performance of a programmer and to plan his work. Both are difficult. The network of computing centers places greater demands on its programmers. The centers

also have a wider choice among programmers and are better able to compare their performance. Individual computing centers, particularly beginning ones, have softer conditions, but the pay scales there as well tend to be the same. The result is undesirable competition and fluctuation in the supply of programmers.

It is considered certain that the concept of independent software will be accepted on the world market because it is the least expensive. At present only about 7 percent of software is provided by software organizations and still less, about 6 percent, by the producers of the computers. In view of the shortage of people engaged in program preparation and the growing number of computer systems, this situation should change substantially in favor of the software organizations. There are also considered to be great commercial possibilities in this area.

Industrial programming is of interest to us for 2 reasons. It is the area where the greatest number of programs is being produced, and it is worth researching the possibilities for exporting programs. As in other fields, success lies in the quality of the services offered and in business acumen.

The current organization of programming work has many disadvantages. The individuality of program preparation is clearly dominant; monolithic programs of a standard character, which repeat themselves, account for an increasingly smaller percentage of the total. Even the most successful applications programs, such as those for the computation of wages, personal documentation, and accounting, must often be adapted to the wishes of specific customers. Despite all efforts, standard applications are increasingly rare. Industrial programming should overcome the barrier of individual solutions or rather an individual approach through program modularity, and the inexpensiveness and rapidity of program preparation.

Many of our computing centers have highly sophisticated applications and basic software comparable to the world state of the art. We must generalize and use better the results of their work in a planned manner and purposefully. The CSSR Government Resolution No 386 of 1977, which was cited above, provides us with a favorable base for this. Its consistent fulfillment in all sectors of the national economy will lead to the desired savings in an investment intensive sector, to the more rapid satisfaction of requirements for computer systems and to the activation of potential opportunities for nonmaterial exports.

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FALUVEGI OUTLINES ECONOMIC TASKS FOR 1983-1985 PLAN PERIOD

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 7-8, Jul-Aug 83 pp 769-786

[Article by Lajos Faluvegi, minister-chairman of the State Planning Office: "Paths of Development in the 1983-1985 Period," a slightly abridged version of an essay in his book "A Tervezes Mai Erteke" (The Present Value of Planning), Budapest, Kossuth Publishing House, January 1983]

[Text] Lessons of the New Phase of Economic Policy

In mid-1982--in the thick of our problems, we might say--national economic planners were already considering the question of what conditions we could expect in the 1983-1985 period, and what obstacles we would have to overcome so as to achieve the economic-policy objectives set by the 12th party congress. First of all it was necessary to review the results and problems of the new phase of economic policy that began in 1979, with special attention to the first two years of the 6th Five-Year Plan.

Today public opinion already knows that the protracted recession following the second oil price shock of 1979 created for us external economic and international political conditions far more unfavorable than had been expected. This process curbed export in practically every country; but in our case this unfavorable effect was intensified because of the relatively large weight of the sectors that found themselves in a particularly difficult situation (ferrous metallurgy, the aluminum industry, the production of PVC, etc.). The recession spread to the international monetary and credit sphere as well. Aggravated by the political discrimination against the socialist countries, this increasingly barred our access to international credits. All this necessitated that we place considerations of our international solvency in the forefront of our attention (i.e., that we vigorously expand our dollar-denominated export and strictly curb our import). Although in varying degrees, the other CEMA countries likewise were confronted with such economic difficulties at that time. For this reason the growth rate of our mutual trade slowed down temporarily. Under the world market's influence, energy import in our mutual trade became more expensive.

However, it would be a mistake to assume that the problems during the first two years [of the 6th Five-Year Plan] arose solely because the external economic conditions developed less favorably than had been expected. After all, we ourselves cannot be satisfied with our economic performances, we are slow

in adjusting to the changed conditions, and macroeconomic management itself does not adequately compel profitable operation. For all these reasons we had to exert considerable effort to achieve an equilibrium of income distribution that we can afford, to maintain our international solvency, and to place our macroeconomic management in a state of constant preparedness.

Hungary is one of the few countries that were able to achieve noteworthy economic results even in this difficult period. National income increased by about 6 percent in the four years from 1979 to 1982. After hitting bottom in 1980, the rate of economic growth accelerated during the past two years, averaging more than 2 percent a year. Industrial production increased by 5.8 percent during the four years, including 4.9 percentage points during the first two years of the current plan period. Farm production in 1982 exceeded the 1978 level by 10 percent and grew by 6.7 percent in the past two years, even faster than had been planned. Productivity rose faster than production.

Whereas in the 1970's the growth rate of import was consistently higher than that of national income, it was lower by 6 percentage points in 1979, by 1 percentage point in 1980 and 1981, and by 4 to 5 percentage points in 1982. Despite the worsening terms of trade, we succeeded in turning around our 1978 trade deficit of nearly 60 billion forints into a 1982 trade surplus of several billion forints. We may claim as a great success the fact that we were able to achieve this substantial improvement of our balance of trade while maintaining at a good level the population's supply.

We have been able to achieve this economic development and restoration of economic equilibrium because, in the wake of our efforts, some signs of intensive development already are evident in our economic activity. The specific consumption of materials has improved during the past two years, and in the productive sectors energy consumption has declined. The ratio of export to production has increased, despite the declining import. Among the factors of growth and efficiency, the data indicating growth are lagging behind the plan's time-commensurate fulfillment; however, the indicators of efficiency--for example, reduction of our nonruble-denominated foreign debt, improvement of the balance of trade, lower energy intensity, and narrowing of our budgetary deficit--already show an improvement over our five-year plan. Of the indicators of efficiency, we have the least reason to be satisfied with the indicator of aggregate efficiency. It shows that the productivity of social labor, and the efficiency of using our production assets are still lagging well behind the requirements of intensive economic development.

The most important objectives have been met in 1982, and we have maintained our international solvency. The 1983 national economic plan is based on these results and contains tasks that have been stepped up considerably. This is a fact that we cannot emphasize strongly enough. There is still much to be done for the fulfillment of these tasks. Their successful fulfillment is a precondition for the process of extricating ourselves in the coming years from our existing difficulties. We clearly see that curtailment of domestic spending has been the principal (and unavoidable) means of improving economic equilibrium in the period just ended. The level of domestic spending in 1982 was 7 percent lower than in 1978, and even lower than in 1980. We were able to preserve our attained standard of living only by significantly reducing accumulation.

In comparison with 1978, gross accumulation in 1982 dropped to two-thirds; and net accumulation, to one-half. Quantitatively, investment in the socialist sector was lower by between 9 and 10 percent than in 1980. In four years this made possible a rise of 7.5 percent in personal consumption, and of nearly 4 percent in per capita real income, and it also enabled us to maintain per capita real wages in 1982 at the 1980 level, in accordance with the requirement of preserving the attained standard of living. (We wish to note in advance that primarily these changes in the proportions helped us to restore economic equilibrium, but the long-term trend could not be imagined at all without them.)

Let us examine what lessons the past four years contributed to the elaboration of the program for the 1983-1985 period. Among them we will single out here the five most important lessons:

--The worsening external economic conditions, the deepening recession and the problems common to the CEMA countries warn us not to expect an entirely new situation even in the future; furthermore, that also new unfavorable phenomena (more countries with repayment problems, the intensification of political and economic discrimination, protectionism and of turning inward, etc.) might disturb our development. We must investigate these interrelations further in our forecasts and elaborate alternatives of action for them, more thoroughly than we have done in the past. We must start out from the realization that long term we cannot leave as wide a gap between the import and export trends of both principal provenances and destinations as we have done in 1981 and particularly in 1982. (Nor will this be necessary if we achieve and maintain the expansion rate of export planned for 1983.)

--From the viewpoint of society and considering the substantiation of our long-range development, our main problem is that the growth rate of national income, including also the growth rate planned for 1983, is slower than what the 6th Five-Year Plan anticipates. External economic conditions and the structure of the economy in the coming years will not allow us, from the side of our markets, to significantly accelerate our quantitative growth. Besides the expansion of export, our only source of growth can be a further reduction of our specific inputs, and an attempt to alleviate, through changes in the structures of our production and trade, the losses resulting from our worsening terms of trade. This must not be perceived as some one-shot economization drive. It must include comprehensive rationalization of energy management, reduced consumption of materials, technology modernization, and greater emphasis on those directions of change in the product structure that will increase the proportion of fruits of intellectual effort within our sales on the markets.

--The external and domestic conditions during the remaining years of the plan period will not allow us to undertake more regarding the living standard than what we have undertaken in 1983, and even preservation of the 1983 level and realization of the 6th Five-Year Plan's social and economic programs will require greater effort than up to now. We are aware that in such a situation social stresses could accumulate, and the social and the economic optimum might necessarily depart from each other, although only temporarily. (In the interest of extricating ourselves from our difficulties, we can accept such a situation only for a short period of time, but only if we retain our sensitivity

toward the most pressing social problems such as the situation of retired persons, large families, young people starting out in life, etc.)

--In recent years we were able to meet the simultaneous requirements of improving economic equilibrium and preserving the standard of living, but only at the cost of sharply curtailing investment. From the viewpoint of our long-range interests, this path cannot be pursued much longer, but it will not be possible even in the coming years to perceptibly increase our allotment for investment. If conditions improve, the bulk of the resulting additional resources in 1984 and 1985 will be used primarily for investment, to accelerate technological development. But if conditions worsen, then social considerations will not allow us to make any meaningful progress in the area of investment, and even a certain regrouping of allocations might become necessary. Under either alternative, however, preference will have to be given to investment and modernization projects that are financed from the enterprises' internal resources and credit, offer short payback periods and economically expand export, substitute import, reduce inputs or improve the production structure.

--In perfecting the system of macroeconomic management, we have made progress in recent years in some important areas (we improved the price system, are pursuing a flexible exchange-rate policy, have modernized our system of organizations and institutions, etc.), but we still keep postponing the solution of certain tasks that were placed on the agenda already at the time of the 1968 economic reform's elaboration. If these tasks are not to become general practice repeatedly countering the basic principles of our system of macroeconomic management, we must solve the accumulated problems faster and proceed further along the path of macroeconomic management's comprehensive modernization.

On the basis of these lessons we came to the conclusion that increasing obstacles in 1984 and 1985 would no longer allow us to employ many of the previous methods serving to improve economic equilibrium and resulting in modest growth. (For example, a further curtailment of import would hold back the growth rate, which would limit on the side of resources our ability to export, and this in its turn would jeopardize our international solvency. Or within industrial investment, a further increase of the present 50-percent share of the fuel, power and extractive industries could undermine manufacturing industry's ability to export.)

At least of equal importance, however, is the realization that in recent years, through our policy of improving economic equilibrium and modernizing the economy's structure, we have created new proportions and accumulated forces that are able to produce change. The experience of the 1970's shows that the nature of the economy requires an economic policy that adjusts flexibly to the changing conditions and does not want to assert its own general direction for 7 or 8 years, because it wishes to avoid a situation in which it is still "playing the old tune" whereas the "choir" around it turned a page in the music long ago. We must prepare for changes in due time so as to avoid having to introduce amendments once again with delay!

These perceptions led us to think through what economic policy we must pursue during the remaining years of the plan period, and to define the tasks stemming for national economic planning from this policy. Starting out from this,

we investigated what courses of action would broaden the scope and possibilities of our economic development. The courses of action outlined in this manner will have to be adjusted to the external and domestic conditions in the coming years, to enable us to formulate the tasks of the annual plans. Specifying the courses of action means, on the one hand, mapping certain ranges for the growth of production, export and import; and, on the other hand, setting certain priorities and limits that we will have to assert if the conditions change. In this approximation the outlook through 1985 is intended to fulfill the role of a draft plan and can serve as the basis of "scenarios" of macroeconomic management, applicable to different situations.

External Requirements, Developmental Alternatives

We have already emphasized that external conditions will determine to a large extent, similarly as they have determined up to now, the scope of the economic policy to be pursued in the remaining years of the 6th Five-Year Plan. According to our present knowledge and judgment, the external conditions will remain difficult, and the requirements stemming from them will invariably be rigorous. How the world market's business cycle develops will continue to determine the expansion of our export.

Through joint efforts, the possibilities of our cooperation with the CEMA countries could improve somewhat. In the decisive Hungarian-Soviet economic relations, a change might take place that is favorable from the viewpoint of our economic development and could have a dynamic effect also in a wider sense. Provided we are able to conclude mutually advantageous agreements that take the realistic possibilities into consideration, expand trade, and indirectly serve also to mutually improve the balance of payments in convertible currency. There is now greater willingness for "expansions" of this type than there was in 1981 or 1982. This requires foresight also of us, to prepare for the years after 1986. (We need most of all to strengthen the technological and trade position of our industrial export.) We can expect that the requirements regarding modernness, the supply of parts, etc. will increase noticeably, and the partner countries will strive to offset mutual deliveries.

A slight upturn in the developed capitalist countries and their most important markets is imaginable already by the end of 1983 or in 1984. On this basis, our prospects of selling in these markets could be slightly better in 1984 to 1985 than at present. A turnaround is unlikely, however, because we also have to take into consideration that competition in this area will intensify, and structural changes will take place that will be unfavorable from our point of view. For it is evident that the forces acting behind the international monetary and credit movements are shepherding the world toward an entirely different economic structure. It is already obvious that the nascent new world economic mechanism will be based primarily on microelectronics, information science, efficient and economical energy and materials management, bio-engineering, and modern food processing. Considering the requirements in these fields, we indeed have a lot to catch up with. And we must likewise foresee that the upturn will be accompanied by a rise of world-market prices (especially in the case of basic materials) and hence will have also effects unfavorable from our point of view. The conditions of our export to developing countries will foreseeably remain difficult also in the future, partially as a result of competition for these markets, and partially because of

the indebtedness or, occasionally, bankruptcy of these countries. However, our opportunities in these markets can be broadened, depending on how successful our marketing and trade policies are. It can be of help to us in these countries that now, as a member of the World Bank, we are able to participate more extensively, and with better chances of success, in bids on various development projects. In sum, a slight upturn of the world economy will be accompanied by the simultaneous occurrence of both positive and negative phenomena.

The possibilities of international borrowing will be an important component of the external conditions also in the coming years. In 1984 and 1985 we can expect to obtain loans in the same amount as this year, provided the international monetary situation improves and we are able to take advantage of the opportunities that the international monetary organizations offer. In spite of this, we will have to reduce our foreign indebtedness also in the coming years. Because of this, the requirements of external economic equilibrium will be even more rigorous than in the first two years of the 6th Five-Year Plan: essentially we will have to maintain also in 1984 and 1985 the surplus we must attain in 1983 in our nonruble-denominated trade (according to the plan, this trade surplus will be substantially higher than in 1982).

It would be a grave mistake to simply wait for an upturn in the world market to have easier access to international borrowing. Even if easier credit were to result from an upturn, we could not afford to watch the intensifying competition from a ringside seat (since we do not even have one), and we must not assume that our competitors will be less of a threat to the demand for Hungarian goods than they have been up to now.

If we want to achieve and maintain this substantial trade surplus, we will have to expand our nonruble-denominated export at a rate that will provide sufficient coverage for the export needed to ensure the continuity of reproduction, and also for the export necessary to achieve our objectives in conjunction with the standard of living. We must clearly see that should we be unable to substantiate the planned export with foreign-market demand and domestic production, our international solvency could again be in jeopardy, and the compulsory curtailment of import could be extended for a longer period of time.

Since the external conditions are so rigorous and uncertain, in terms of the prospects of economic development the 1983-1985 period cannot be regarded as uniform. The improvement of external economic equilibrium and maintenance of our international solvency must be given priority all along. Depending on the international monetary conditions, however, the amount of the trade surplus necessary to keep international liquidity within a safe range may vary somewhat.

Together with the external conditions, the "mobilizability" of the domestic economic forces likewise contains more uncertainty than usual. This compelled the planners at the National Planning Office to elaborate in alternatives their conceptions of the possible paths of development. (What we have here primarily are not different numbers, but two different sets of conditions and their corresponding systems of economic-policy actions.) The "modest" alternative presupposes that the present set of conditions will continue; the "hopeful" alternative is based on the upswing that might start.

The initial hypothesis of both alternatives is the following: the economic equilibrium indispensable to improving the balance of trade must be achieved while taking into consideration that the possibilities for the expansion of export might differ. On average for 1984 and 1985, nonruble denominated export will expand at an annual rate of 4 to 6 percent under the more favorable alternative, and 3 to 4 percent under the less favorable one. Also the import that can be targeted under this latter variant is hardly more than this year's import. In this variant we are unable to substantiate an acceleration of the present rate of economic growth. (Which indirectly means that we cannot make any further progress in domestic spending as well.) According to the more favorable alternative, however, even a growth rate of 3 to 3.5 percent can be approximated in 1985.

We must not think that solely the external economic conditions determine the growth rate of national income and the resources available for domestic spending. For this growth rate and the resources available for domestic spending depend to a large extent on how the economy's ability to generate income develops: on what will be the proportion of material costs, specific energy consumption and import intensity, and the shifts in the terms of trade. We have some flexibility also in what role we assign to domestic factors--to production for export, and to accumulation or consumption--once a perceptible external economic upswing does start.

Both alternatives assume that the targets of the 1983 national economic plan will be fulfilled, but the opinion at present is that in 1984 the principal economic processes are very likely to develop still according to the less favorable alternative, and that the more favorable alternative is more likely to apply in 1985, but only if the characteristics of intensive development unfold vigorously. Within the framework of annual planning and macroeconomic management we will strive to ensure already in 1984 the conditions for the more favorable alternative, or at least for its essential elements.

Thus we must expect alternative paths of development also in spending, depending on whether the external economic conditions develop more favorably or less favorably, and on the extent to which we meet the strict requirements. The determining aspect in elaborating this alternative behavior can be that personal consumption is the more stable element, whereas investment is the more variable element; under favorable conditions, then, we may be more bold in considering investment objectives, but under less favorable conditions we will have to defer certain investments, bearing in mind the considerations of social policy.

Concerning the standard of living, in the more favorable alternative we have to give preference to social programs, and we might also be able to raise real wages slightly. In the less favorable alternative, however, we must devote more attention to relieving social tensions; we might be forced to curtail infrastructural investments, and it is not certain that we will be able to maintain the 1983 level of real wages.

If better economic conditions permit, within investment it will be expedient to increase the investment projects financed from the enterprises' own resources, especially the ones whose economic efficiency is above average. This will not be possible under less favorable conditions.

On the basis of all this, our concepts regarding the second half of the 6th Five-Year Plan--or even the alternatives elaborated in greater detail--cannot be regarded as a medium-range plan in the traditional sense, nor do they replace the annual plans. However, they provide a basis for more thorough and more demanding assessment, and for formulating our behavior--alternative behaviour, if necessary--in the coming years. The principal directions essentially coincide with our principal economic-policy objectives for the 6th Five-Year Plan: with our efforts to improve external economic equilibrium and to preserve the standard of living. There is a change, however, in the interrelations of the objectives! In tight situations the living standard's development temporarily must be subordinated to some extent to external economic equilibrium's improvement, but bearing in mind also considerations of the social strata. This is not merely our short-term economic interest, for long-term balanced growth likewise requires that we preserve our international solvency. But this is only a "necessary" and not a "sufficient" condition for extricating ourselves from our present difficulties. If we want to be free of the pressing liquidity problems that jeopardize the continuity of our development, we must steadily raise to a preferential objective of equal rank the improvement of the entire economy's efficiency of operation, in a manner and according to the requirements corresponding to the present situation.

Along the Path of Intensification

As evident from the preceding, the tasks of the 1983-1985 period are of a stabilizing nature and simultaneously tasks that will give the economy momentum at its points of advance. We will be able to substantiate these tasks only by raising to a higher level our ability to generate income. On the basis of both the external economic conditions's forecasts and our domestic reserves, it is realistically feasible to attain this higher level in the given period, but we are also compelled to do so, for the same reason. Further substantial curtailment of domestic spending would not only exhaust society's tolerance limit, but would also raise new and increasingly difficult obstacles to our efforts to find a way out. If, on the other hand, we are able to advance at the main junctions of production, then the quasi-fixed trajectory of the economy's development could be relaxed, planning's presently minimal freedom of action in relation to the living standard, social policy and investment policy would be broadened, and our short-term and long-term objectives would dovetail more closely. To this end the following must be done in planning:

a. After the more moderate growth in recent years, vigorous expansion of industrial export must be achieved through purposeful work. Analyses have revealed that we are able to increase our export at above-average rates primarily in the case of certain engineering, chemical-industry and light-industry products (highway vehicles and their subassemblies, railroad rolling stock, machine tools, electric light sources, power generating equipment, medical instruments, pharmaceuticals, and plant protectants). These are mostly examples, because in the final outcome the market conditions determine the possibilities.

Favorable market conditions and inadequate economic efficiency might necessitate that we maintain at the present level or reduce our export of rolled steel, certain metal products, PVC, and manufactured fertilizers. If prices

and terms of delivery turn favorable, it will be expedient to accelerate the expansion of our export in ferrous metallurgy, the chemical industry and certain areas of light industry, but this will require greater flexibility on our part in production and marketing than what we have shown up to now. In the final outcome, depending on the foreseeable development of the external economic conditions, our nonruble-denominated export of industrial products could increase in 1984 and 1985 at an average rate of 4 to 6 percent a year.

Our production and export of farm and food-industry products must contribute significantly also in the next two years toward the restoration of economic equilibrium. We expect our nonruble-denominated export to expand during this period at an average rate of 3 to 5 percent a year. We can provide the most reliable basis for this if we implement the grain program, and coordinate more closely the economic-efficiency aspects of marketing and production. We intend to use also foreign credits to accelerate investments for the development of grain production. We must produce about 3 to 3.5 percent more livestock products during the next two years, and the additional output must be used primarily for the expansion of our nonruble-denominated export.

To improve our economic equilibrium and to maintain domestic spending at its current level under the present situation of the world economy, it is not enough to increase our ability to export. These objectives must be supported by economical import substitution as well! It is worth encouraging import-substituting production in areas where the product in question can be produced economically at home through the better use of existing production capacities --by, among other things, sensibly using capacities of low efficiency--without substantial investments, or with only small investments that can be recovered within a short time. Import substitution is expedient especially when the basic material can be obtained from domestic production or ruble-denominated import, but also when the nonruble-denominated import of the basic material is more advantageous than importing the final product itself.

As a result of the central development programs for expanding the production of electronic components, for plastics fabrication and for increasing the output of aluminum products of a higher degree of fabrication, and also of the economy-organizing measures to increase the production of parts, subassemblies and semifinished products, import can be significantly reduced also within this circle of commodities. In import substitution we must rely increasingly on the production and rebuilding of parts and on other supplier-industry activities by small enterprises, industrial cooperatives, ancillary branches of agricultural cooperatives, and other forms of small businesses, on production under contract, etc. We have taken into account the most complete utilization of all these possibilities, but even so a slight increase in nonruble-denominated import will still be necessary in 1984 and 1985.

b. In today's fierce international competition we can gain an advantage not only through a high technological level and a product structure that rapidly adjusts to the demand, but also by reducing our costs. International comparisons show that in this respect we still have very substantial reserves. Only by uncovering and utilizing these reserves can we offset our technological drawback and the fact that our investment possibilities at present are limited.

This realization led the government to order the elaboration of a comprehensive program for the key tasks of cost reduction, and to ensure suitable financial and technical conditions for this program's realization.

If we consistently fulfill the tasks of the expanded and accelerated energy-management program that aims to cut costs, then in 1984 and 1985 our energy consumption can increase at most by 0.5 to 1 percent a year, which is slower than the rate originally planned, and also the structure of energy consumption will improve further. The most important task is to curb the use of petroleum: by 1985 we must achieve savings in oil consumption totaling 900,000 tons of petroleum, and import substitution equivalent to 350,000 tons of petroleum. Replacing oil with atomic energy and natural gas, we will reduce the share of oil within energy consumption from 35 percent in 1980 to about 30 percent in 1985. The principal sources of saving oil will be the following: output of electricity at the Paks Nuclear Power Plant will be brought to full capacity; domestic natural gas and coal will be used economically; and energy-saving technologies, construction methods and modes of transportation will become widespread. Important tasks of the 1984-1985 period will be to rapidly complete the investment projects under construction, to expand the network of gas pipelines, and to increase the performance of the coal-classification and briquet plants. We intend to use also World Bank loans to accelerate the rationalization of energy consumption.

On the basis of the program for economical consumption of materials and modernization of technologies, by the end of 1985 we must significantly reduce the specific consumption of materials in industrial production, partially through economy-organizing measures, and partially through efficient investments that do not cost much and can be realized quickly. In the 6th Five-Year Plan we were unable to project an improvement at the macroeconomic level in the specific consumption of materials. Under the influence of the results to date, and of further economization measures and structural changes, this indicator might drop about 0.5 percentage point during the plan period, which would mean average savings of 6.0 to 8.0 billion forints a year. Enormous amounts of materials could be saved, for example, in ferrous metallurgy by modernizing the design and dimensioning standards of the overdimensioned materials used in the construction industry, through the economical substitution of various materials (copper, aluminum, steel, plastics, etc.), and by increasing the production and use of high-grade steels; or in the building-materials industry by increasing the production of cement requiring a large proportion of aggregate, and by offering incentives for the economical use of cement in construction. The enterprises will achieve further savings in the consumption of materials, under the influence of their greater cost sensitivity. (In the coming years we intend to make this cost sensitivity even more emphatic, by perfecting the price system and the financial system, and by strengthening market relations.) The specific consumption of materials in agriculture can be reduced 1.0 percent in 1984 and 1985. But this percentage could be increased further by developing the technologies of tillage, reducing storage losses of manufactured fertilizers and the costs of their application, increasing the effectiveness of such fertilizers, taking more closely into consideration the ecological requirements of the different plant varieties and species when planting them, and consistently implementing the other tasks contained in the action program for economizing materials in the agriculture and food-industry complex.

c. Along a path of moderate growth, the question of raising labor productivity arises contradictorily. Declining demand and the problems of the crisis industries have created enormous unemployment in the developed capitalist countries. We cannot follow this path, although the protracted recession of the world economy is painful to us as well. But this does not mean that we cannot raise labor productivity while maintaining the balance of general employment. The efficiency of employment lags far behind the requirements and the possibilities: on the basis of various comparisons, disguised unemployment can be estimated at about 300,000. At the same time there are manpower shortages in certain industries and zones (for example, in Budapest), and for decades the number of persons employed in services has been far fewer than necessary. About half of the missing manpower can be transferred within industry to more efficient plants, and the other half can be released from agriculture to reinforce the supplier industries and services.

Disguised unemployment involves substantial economic and social costs! We often lose considerable export earnings and are forced to import expensively, merely because those who should be producing what we need are "waiting" for work elsewhere or are producing unprofitably. It would be unrealistic, of course, to strive to regroup during the 1983-1985 period workers numbering in the hundreds and thousands. (At present about 30,000 to 40,000 workers are leaving industry a year.) But this manpower mobility must be accelerated in the direction of the efficient enterprises and the service industries.

We must create the necessary institutional framework for manpower mobility on a larger scale. Retraining and further training must become better organized and more extensive, and the social services for this must be created. We need modern employment organizations that will gather information on the supply and demand for manpower and will help to channel workers to those enterprises where economical export is being held back by a shortage of manpower. The councils' task of directing the manpower reserves on their territory to the enterprises and institutions that are short of manpower will increase. Within a relatively short time we have to modernize our employment policy and manpower management in such a way that they will aid, through suitable forms and incentives, the movement of larger groups of workers.

Expansion of our ability to export, sensible import substitution, cost reduction, and rising labor productivity can become living practice that determines enterprise management only if economic pressure on the economic units increases, but at the same time their opportunities for entrepreneurship broaden. All this requires that we advance in two directions. In every branch (industry, agriculture, construction, transport, domestic trade, in the sector of municipal services, etc.) it is necessary to formulate the tasks in the designated key areas of economic activity, and the sets of conditions for these tasks. These programs must not be perceived as living separate lives of their own; rather their goals and aspirations will be incorporated into the long- and short-term plans of the economic organizations, and the programs themselves will become a compass for the daily activity of these organizations. This is why we believe that these aspirations can be realized primarily on an economic basis, through the methods of regulation, and that administrative methods are unable to produce lasting results. For this reason we must proceed further in the comprehensive modernization of macroeconomic management and the system of regulation, along the road begun in 1968. We will discuss separately this task of primary importance in the coming period.

Directions of the Macroeconomic Management System's Modernization

Although the progress we have made in perfecting our system of macroeconomic management in recent years has not been small by any means, some of its obsolete solutions, inconsistencies and its lack of coordination in several important areas are hampering realization of our economic-policy objectives. Parallel with the changing conditions, we will strive for gradual changes in the measures whose application in 1982 and 1983 was still warranted (and effective). However, we cannot solve the tasks confronting us by reverting to the pre-1982 practice of macroeconomic management. An essential condition and means of the economy's successful stabilization, and of switching development to a more favorable path, is the comprehensive further perfection of the system of macroeconomic management, and its consistent application in the process of development, in order to achieve a qualitative improvement of competitiveness and efficiency, to accelerate the production structure's modernization, and to meaningfully raise the quality of the enterprises and cooperatives' economic activity.

The concept of comprehensive modernization that is taking shape wishes to create more favorable conditions, a more conducive environment, and incentives for independent and more entrepreneurial economic activity. To this end we must advance in two principal areas. First, central management of the economy must be made more simple and purposeful. Secondly, the economic regulators must undergo comprehensive modernization, and in harmony with this modernization we must proceed further also in the methods of organization and enterprise management, in order to promote flexible adjustment to market conditions.

Macroeconomic management by the state must solve several tasks simultaneously:

--Mostly through price regulation and the financial regulators, general criteria must be transmitted that will bring the microeconomic optimum much closer to the macroeconomic optimum, so that a rise of enterprise profits will be accompanied by an increase of the economy's ability to generate income. And if problems arise at an enterprise, the regulators must compel a change of its production structure, discontinuation of the uneconomical activity, and the regrouping of the enterprise's assets and work force.

--Through several government programs, the state must aid and influence the principal processes of structural change. The state must create the sets of macroeconomic conditions (ranging from scientific research to trade agreements that ensure marketing) for breakthroughs at key points of the economic structure, and must help the interested enterprises to participate in the implementation of these programs.

--Real market supervision must be achieved increasingly through economic regulators, and the necessary state control (or intervention when warranted) must occur not at a high governmental level but "close to the market."

Analyzing the effectiveness of the system of economic regulation and its ability to function, we came to the conclusion that the tasks of structural change confronting us would require a price system and financial system that increased the enterprises' profit incentive and simultaneously their cost sensitivity as

well. For it is obvious that structural change can accelerate only if the economic organizations are able to retain a larger share of the resulting profit. Our price system and financial system, however, are strongly "gross" and prices contain more realized profit than warranted. In itself a financial system of this type requires large-scale redistribution through the state budget, and for this the tax rate on profits must be very high. (Of course, the enterprises' inadequate cost sensitivity can be attributed to other causes as well; for example, to the absence of competition and the resulting weak functioning of the domestic market.) Jointly the price system and the currently employed mode of income regulation are unable to keep in balance personal purchasing power and purchasing power in the investment market, and for this reason we are compelled time and again to resort to intervention. However, we would like to avoid having to do this in the future.

Our second conclusion is as follows: From the enterprises' additional income, the tax system's structure does not allow the state to collect revenue sufficient for its tasks. Among our taxes, the relative weight of the tax on net income that is commensurate with wages or retail prices is still inadequate, but the relative weight is excessive of those forms of taxation that give the state nothing, or very little, of the price increases. And since the relative weight of the tax on net income--including the consumer's turnover tax--is inadequate, wages within the enterprises' costs are undervalued and are not compelling the enterprises to manage wage costs efficiently and to resort to sensible substitution. Our price system and financial system also weaken the suitably close link between producer prices and consumer prices, because the turnover-tax system and the system of consumer-price subsidies are excessively differentiated.

It is essential at the present stage--and will be increasingly so in the future--that productivity rise at a faster rate. Much will depend from this point of view on how the financial system and wage regulation will aid the management of wages and personnel at the enterprises. Analyses indicate a need to proceed ahead in a way that will end the discriminating treatment of wages and wage increases among the enterprise costs, so as to give the enterprises more independence in the management of wages. And since regulation of purchasing power will remain an important condition of economic equilibrium, in conjunction with the preceding also the taxing of personal incomes will be cast in a new light.

It appears that these contradictions cannot be resolved within the framework of the present price system and financial system, and therefore they necessitate a thorough reform of the tax system.

Perfection of the price system and price mechanism could strive to end as soon as possible the special concessions that are included mostly in the prices of manufacturing industry (for example, to support the enterprises that found themselves in a difficult situation), because today these concessions already make it impossible to really measure enterprise performances, and the impact of the market forces has been "spread" to the users. Because also in the coming period the functioning of the domestic market alone cannot be expected to limit manufacturing industry's prices, we intend to continue using the price system introduced in 1980, but we will gradually narrow the individual concessions and exemptions, in harmony with the other tax changes.

We must further perfect the economy's system of organizations and institutions if in the process of economic activity indirect regulation is to function as a mechanism--more in accord with market conditions and without major changes--and if it is to be more effective than at present. But perfection of the enterprises' organization is one of the conditions of primary importance also for better adjustment to market forces. In the coming years we intend to further relax the centralization of the enterprises' system of organization, specifically by splitting up existing organizations if that is reasonable, or by giving organizations greater freedom to split up on their own initiative, and also by founding new organizations. At the same time we wish to create enterprise incentive, opportunity and an institutional form so that the capital concentration necessary for production, marketing, etc. may take place in the complex process of entrepreneurship, essentially on the basis of the enterprises' own decision.

The enterprises will be able to meet the stricter requirements only if also their internal system of management is modernized. Some important changes have been made in recent years also in this respect (consider, for example, the small-scale organizations and decentralizations, the broader functions of the management committee and board of supervision, the system of competition, etc.). In the coming period it will be especially important to find new forms for exercising the state's rights as owner, forms more conducive to structural change and to the sensible regrouping of assets and manpower. At state enterprises it will be necessary to increase the managers and collectives' sense of ownership and responsibility. They must be given more opportunity to use the assets at their disposal, where and in the way the interests of the national economy can best be served. On the basis of the investigations to date, the outlines are taking shape of two directions in enterprise management:

--The first direction places more emphasis on the responsibility and incentives of collective management, and at the same time it introduces a better-organized framework and new forms that enable the members of social and corporate organs, and the workers' representatives to participate meaningfully in making strategic decisions. The "enterprise consensus" forged in this manner places on a more solid foundation the day-to-day operational decisions by management.

--The other form of enterprise management aims to strengthen the collective employment and entrepreneurial character of the enterprise. It introduces forms through which the enterprise collectives--either directly or through their representatives--have more say not only in making strategic decisions, but also in shaping the behavior of their enterprises in wage, social and investment policies.

In view of the diversity of economic organizations and roles, of course, neither direction can be exclusive. It is necessary to take into consideration the economic and social consequences, and hence also the drawbacks, of the various forms of management. There is still much to be carefully weighed before we can offer solutions that combine the advantages of the outlined two directions, and can fit into and advance the present economic and social conditions. We are in a period when we have to accept the parallel existence of several different forms and let practice select the best one among them.

On the whole a consensus has emerged on the principal directions of modernization. There is debate on what points we will be able to advance in 1984. It is socially and economically desirable that we proceed as resolutely as possible along this path.

Proportions of Distribution and Fiscal Policy

In the coming years we must set strict requirements for the economy's performance. All this will affect our distribution policy, which will have to exert a stabilizing effect from the viewpoint of economic equilibrium, but will require changes to extricate us from the present economic difficulties. On the basis of the conditions that can realistically be expected in 1984-1985, it will be possible to slow down and then to halt the large-scale decline of the rate of accumulation over the past four years; and in 1985, under favorable conditions, the rate of accumulation could even be increased somewhat. (Naturally, in a manner that fits into the two outlined alternatives.) The proportion of social benefits within personal incomes will increase further, and we will have to encourage personal savings in order to maintain equilibrium in the market for consumer goods.

We have already emphasized that in the remaining period of the 6th Five-Year Plan we will be able to satisfy the social expectations regarding the living standard and living conditions only if we increase national income and improve the efficiency and competitiveness of production. In the coming years we must reckon with the fact that development of the living standard will depend not only on our work, which of course will be of decisive importance, but also on the external economic conditions, more so than in the past. Under the influence of these conditions, we had to accept that personal consumption will slow down somewhat in 1983 (but it will still remain above the 1980 level). The unfavorable effects of this slowdown will be alleviated through social-policy measures in the second half of the year.

Realistically (or rather if the conditions are favorable) the objectives of our policy on the standard of living in 1984-1985 could be the following: we must maintain the level of the supply of merchandise; personal consumption will have to be increased moderately, at an average rate of 1 to 1.5 percent a year; the remaining tasks of the social programs concerning key areas of the living standard must be solved; and the 1983 level of real wages must be maintained if possible. Detailed reasons are hardly necessary to justify the social and political importance of substantiating all this in terms of the efficiency of production.

Real wages can be kept at their present level by letting nominal wages and prices rise at the same rate, but it is not at all indifferent whether this rate is fast or slow. Selection of this combination will be one of the very important questions of incomes policy in the next two years.

The argument in favor of raising prices and wages at a somewhat faster rate is that this will provide wider room for stimulation and will permit better differentiation of wage increases among enterprises and workers, allowing economic activity to become more efficient. The argument against it is that the purchasing power of social benefits would decline further (and the extent of this

decline could be of such magnitude that there would be wide social expectations to compensate for the decline), and also savings would be affected unfavorably.

A more moderate rate of rise in consumer prices would be less likely to intensify our social problems, but sharp curtailment of the outflow of incomes would affect primarily wages (in view of the extensive automatism of the social benefits), and this could have a limiting effect on performances in important trades and occupations, and also at enterprises of above-average efficiency. This is in conflict with our long-range objectives of increasing economic incentives and of strengthening the orientation on performance. Experience warns us that a rise of more than 5 or 6 percent in the consumer price level already creates serious social problems (and this must be taken into consideration in our exchange-rate policy as well). Main emphasis in wage policy must be placed on increasing performances; we must raise productivity, and wage increases of 5 to 6 percent already make this possible. We wish to shape the development of prices and the outflow of wages in such a way that the rates of increase of prices and wages planned for 1983 will narrow the gap between them about equally, so that sufficient room may develop for both price regulation and wage regulation.

A task of special importance in our policy on the standard of living during the next two years is to further improve the population's living conditions and to continue the realization of the social and economic programs of the 6th Five-Year Plan: the housing program, the program of general education, and the health-care program. In the development of the infrastructure we are anticipating also new tasks: faster improvement of the population's supply with telephones, and acceleration of the water, sewer and gas supply of the settlements. In view of our available material resources, this will be possible only if also the population assumes a larger share of the costs.

The supply of merchandise is a particularly important component of social equilibrium, of a good public mood. The already attained level in the supply of merchandise will not only have to be maintained regarding the circle of products of primary importance, but we must also strive to avoid any recurrence of the temporary shortages of various industrial goods that occasionally occurred in 1982. A suitable agricultural supply base permits a further improvement in the quality and assortment of food supply, and this must be formulated as a requirement.

In the coming years the prospects of improving the standard of living will again not enable every family and every citizen to maintain their attained living standard, and we can also expect certain social problems to intensify. Our narrower freedom of movement will enable us to offset only to a limited extent the unfavorable social effects, and therefore we must continue to use the instrument of sharing the burden more equitably; in other words, persons with higher incomes and greater wealth will contribute relatively more toward the resources needed to alleviate the social problems.

So far as accumulation as the other principal component of domestic spending and, within it, investments are concerned, it seems that in 1984-1985 we will be able to arrest their decline, and it might even be possible to increase investments slightly. (Naturally, this should be understood in relation to the

low investment level of 1981-1983.) From the available resources we intend to give preference to investment projects that serve to restore economic equilibrium and to improve the economy's efficiency. A certain regrouping of resources will be necessary. Investment projects for energy conservation, rationalization of the consumption of materials and technological modernization must attain greater relative weight. If necessary, domestic investment resources will have to be regrouped--even at the expense of other investments--to the investments for energy conservation, export expansion, changes in the production structure and development of grain production that can be financed with loans from the World Bank. We will have to enforce more consistently the principle that direct investment in the productive branches must be undertaken predominantly as enterprise investment projects financed from the enterprises' own resources and credit. The proportion of supplementary or modernization investment projects of small and medium size that can be completed quickly to aid the utilization of existing capacities must be increased likewise. We will aid also with the instruments of credit policy the economical realization of the preferential objectives of the central programs, which have been reviewed and abridged in accordance with the present conditions.

If we wish to make investment development more efficient, we must increase the proportion of entrepreneurial investment projects. Which means that the form of competitive bidding, based on the contracting parties' freedom to agree, must become increasingly typical. In the coming years it will not yet be possible to abolish completely the system of designating contractors, but it must be curtailed gradually. If we make headway in these matters, then the investment market's equilibrium that is in harmony with the economy's capabilities will not depend primarily on central restrictions, but will develop instead on the basis of the enterprises' economic incentives and their own resources.

Fiscal policy, and within it budgetary policy, must also be in accord with our distribution objectives. In the 1970's the budgetary deficit (or the source of credit used) became larger with each year, primarily as a result of overdistribution. From the side of state finances, this contributed toward domestic spending in excess of produced income. For 1983 we have planned a budgetary net balance that better expresses real economic equilibrium.

Further economization in budgetary expenditures will be necessary in 1984 and 1985. This will be essential not only to improve external economic equilibrium, but also to ward off the threat of inflation and to keep the rise of consumer prices within the planned limits. Without this it would be impossible to carry out also the regrouping of resources that is essential to the realization of our social-policy aspirations. More can be allotted for these purposes if we enforce even stricter economization in government spending, and if we streamline further the operations of budgetary institutions. We must take also new aspects into consideration when assessing the budget's balance at a time when we would like to boost our rate of economic growth. We cannot stimulate the economy with budget-financed investments, but tax policy and subsidization policy have a wide sphere of influence. In the coming years, therefore, considerations of structural policy must be raised also in this area to a rank equal to the requirements of economic equilibrium.

The propensity to save must be strengthened if credits are to play a more active role in financing productive and personal investments. To this end

a flexible interest-rate policy is necessary, the forms of special-purpose savings must be strengthened, and--perhaps most importantly--reliable supply of an ample assortment of goods must be ensured, and the rise of consumer prices must be predictable. We intend to make more credit available also by attempting once again to reduce state subsidies--in harmony with the comprehensive modernization of the system of macroeconomic management--and to convert some of the incentives into sources of credit. Compulsion to discontinue uneconomical production can only be enhanced if already in the coming years the inefficiently operating enterprises get, instead of state loans, credits under contracts concluded with the bank and based on a realistic program for the improvement of efficiency.

From all this it follows that in 1984 and 1985 we intend to make even closer the link between our production and distribution objectives and the financial regulators, specifically for the purpose of making our most important objective--the improvement of external economic equilibrium--coincide with the immediate interests of the economic units and of the citizens.

We had our progress and extraction from the present difficulties in mind when we undertook to fit the 6th Five-Year Plan's economic-policy aspirations into our development's system of present and foreseeable external and domestic conditions, and to formulate on this basis certain requirements for the 1984 and 1985 national economic plans. If we can fill this economic-policy framework consistently with tangible tasks, and shape our economic system so as to create more favorable conditions for meaningful work, then we will be able to mobilize our entire society for this purpose. In this manner we hope to overcome our present difficulties, consolidate our economy, and lay the foundation for faster economic growth in the second half of this decade. Perhaps this statement might sound bold, but at a moderate growth rate--the source of which is constantly improving efficiency--we will be able to advance our economic standing among nations by more than we were able to advance in the period of our dynamic but extensive growth.

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CSO: 2500/459

PROGRESS IN FOREIGN TRADE REFORM DISCUSSED

Initial Results

Warsaw RYNKI ZAGRANICZNE in Polish No 70, 11 Jun 83 p 8

[Article by Stanislaw Gruzewski: "Licenses Granted to the Wrong People"]

[Text] Within the framework of the economic reform being introduced, the Sejm [Parliament] passed a law in February 1982 defining the method and procedure for granting legal entities and individuals the right to conduct foreign-trade operations. Not much time has elapsed since this law was passed and it would be hard at this time to make a thorough assessment on how its provisions are functioning. Particularly since the year 1982 was one of the most difficult in our economy in the entire postwar period, which had its effect on the course of the changes being made in the organization of Polish foreign trade. Nevertheless, it is worth an attempt to make at least a preliminary report on some characteristic phenomena and tendencies which have been observed over the past several months.

However, before I go on to this, it seems to me that it would be advisable to remind ourselves, at least very briefly, of the most important provisions of the law in order to better understand its intentions, at whom it was mainly directed, and who benefits the most from it. This is particularly indicated because experience thus far has shown that even the enterprises and economic units directly involved in this do not always understand the requirements and conditions that must be complied with in order to apply for a license. As a consequence, there are often disagreements and the time taken by the Ministry of Foreign Trade to settle these matters is unnecessarily prolonged.

To Whom, What, and on What Conditions

Therefore, in accordance with the accepted principles, the following have the right to conduct independent operations in the field of foreign trade: enterprises in the socialized economy, legal entities and individuals conducting production, service or trade operations on the basis of proper authorization, and public organizations conducting economic activity.

These rights are granted by the Minister of Foreign Trade, who also defines their range. They may cover export or import of specified goods or services without any restrictions, or with certain restrictions applying to selected markets and some contracts.

The entities interested in applying for these rights must fulfill the following requirements:

--attain a share of at least 25 percent of direct export of manufactured goods or services in the total amount of production sales, or attain an amount of absolute export exceeding 1 billion zlotys.

--ensure proper cadre, organizational and technical service for the exported or imported goods or services specified in the license.

The first condition is not final. In justified cases it may be considerably diminished, especially if the enterprise applying for a license is involved in industrial coproduction with foreign contractors or is exporting products produced from material consigned to it.

The above provisions do not cover all economic units. Those have been excluded which produce raw materials, fuels, electrical energy, and agricultural products of primary importance to the national economy. The specialized foreign-trade enterprises, such as WEGLOKOKS [Coal and Coke], ROLIMPEX [Agricultural Products, Seeds and Medicinal Herbs], ANIMEX [Animal, Meat and Poultry Products], and others, continue to handle the export and import of these commodities.

A Little Rain from a Large Cloud

From the criteria listed above it appears unequivocally that the large electromachinery production enterprises were best able to obtain the right to conduct foreign-trade operations. This was not a coincidence, in any case, since most demands for granting enterprises these kinds of rights came precisely from this industry in past years. And it is these voices that determined that such a law was passed by the Sejm at all.

But unfortunately the well-known saying, "out of a large cloud, a little bit of rain", proved to be correct in this case. As past experience has shown, the enterprises in this industry are taking only minimal advantage of the possibilities created for them: during the period from March 1982 to April 1983, the Minister of Foreign Trade issued 143 licenses, of which only 7 went to the electromachinery industry enterprises. These were: FAMPAPapermaking Machine Factory in Cieplice, URSUS Tractor Works in Ursus, POLAR Mechanical Household Equipment Plants in Wroclaw, Industrial Equipment Plants in Nysa, ZASTAL Zaodrzanskie Metals Industry Plant Marcel Nowotka in Zielona Gora, POLAM-Pila Lighting Equipment Plants in Pila, and ZREMB Construction Supply Enterprise in Warsaw.

In addition to these seven, we should also mention the RAFAMET Machine Tool Factory in Kuznia Raciborska, to whom a license was restored which had been arbitrarily and without basis withdrawn during the second half of the 1970's.

For the 14 months that this law has been in effect, the results have been somewhat less than good.

The situation in the enterprises which export construction and assembly services and technology is somewhat different. There were considerably more enterprises which wanted to conduct foreign trade independently, because by the end of April of this year 15 construction-assembly enterprises received licenses and 12 entities offering services in the field of technical ideas.

The first group includes such enterprises as CHEMOBUDOWA-Krakow, NAFTOBUDOWA-Krakow, INSTAL-Rzeszow, EKSBUD-Kielce, MOSTOSTALEXPORT-Warsaw, ELEKTROMONTAZ-Warsaw, INSTAL-EXPORT-Warsaw, and many others. In the second group are the Warsaw Technical Academy, the Mining-Metallurgy Academy in Krakow, and others.

However, most of the entities interested in conducting foreign trade operations on their own were in the small-scale manufacturing sector. They received the largest number of licenses--107. Of this, 16 were granted to units in the socialized economy, 88 to individuals, and 3 to Polonia firms.

In addition, the Polish Maritime Service in Szczecin and PKS, the State Motor Transport, in Warsaw, obtained licenses to conduct foreign trade. To make the picture clearer, I would like to add that the total number of applications made to the Minister of Foreign Trade was much larger, amounting to about 300 at the end of April, this year. Of these, 143 were decided favorably, about 60 were turned down, and the rest are in the process of being decided.

Initial Conclusions

Briefly speaking, it may be said that /the right to conduct foreign-trade operations is not being obtained by those whom the law was supposed to attract at the time it was being prepared/[in boldface]. The law was being mainly directed at the large enterprises in the electromachinery industry, but thus far they have not shown any great interest in it. On the other hand, individuals from the small-scale manufacturing sector and construction-assembly enterprises who export services have benefited the most from it.

The question arises, therefore: /Why did this happen/[in boldface] and does the course of action that the Ministry of Foreign Trade has taken in granting these licenses not deviate too far from the spirit of the Sejm's law?

The answer to the first part of the question is relatively easy. In my opinion, the reason there is so little interest in undertaking new activity, which is what foreign trade is for production enterprises, can be attributed to the following factors:

--the first is of a psychological nature and it seems that it was one thing to demand licenses when there was nothing at risk, when centralization of management of the national economy from above increased from year to year, excluding the possibility of risk, but it is something else now, when it is known that such a possibility is very real,

--second is the depth of our economic crisis, which has caused the most important matter for the producer to be that of production itself and maintaining its continuity. It is not surprising that there is not too much interest in taking on additional tasks in the form of foreign-trade operations,

--third are the results of the economic reform being introduced. The production enterprises, having achieved a rather wide margin of independence, began to consider the effects of their activities more than they have in the past. And the organizing of a foreign-exchange unit within the enterprise means not only greater costs, at least during the initial period of operation of such an office, but also the serious risk of independently operating on the foreign markets, especially where frequently an adequately prepared staff is not available,

--fourth is the decision of the Minister of Foreign Trade, restricting the rights of the licensees almost exclusively to the markets of the capitalist countries. This has led to the elimination from play of the decided majority of enterprises of the electromachinery industry, for whom the principal sales market were and are the socialist countries. About 80 percent of the entire electromachinery export goes to this market,

--fifth is the appearance in the second half of last year of new forms of organizational ties linking industry with foreign trade, in the form of companies with limited responsibilities.

Granting the most licenses to individuals in the small-scale production sector does not raise any doubts. These are certainly correct decisions, if only for the fact that they contribute to rebuilding of local industry which has suffered such painful losses as a result of the irresponsible government decisions in the 1970's.

However, the same cannot be said about the construction-assembly enterprises. Why were so many licenses issued to this group? Don't we have anyone who can export building services and so it was necessary to fill the gap? Certainly not. Several foreign-trade enterprises, which have been in existence for a long time, such as BUDIMEX [Construction Materials, Supplies and Equipment], DROMEX [Road and Bridge Construction Exports], POLIMEX-CEKOP [Industrial Equipment and Machinery], CENTRO-ZAP [Mining and Metallurgy Machinery and Equipment], and several others, conduct foreign trade at the present time. An unhealthy competitive struggle is now taking place among them on the foreign markets. And the trump card in this struggle are the prices at which we are willing to build for our foreign partners. I do not have to add here that only the interests of the Polish economy suffer in such a struggle.

And now in this already abnormal situation 15 new competitors appear on the foreign markets, who have only this one weapon and nothing else. To what does all of this lead?

We all know that our construction is very sick and that it was afflicted by the most painful economic crisis, as shown by the actually catastrophic results in this sector of the economy. The question arises: /Can these sick enterprises, which can't even manage to cope at home, enter into the competitive struggle with foreign firms?/[in boldface]. Of course not. But apparently everyone is not

convinced of this, since there are so many who are willing to undertake the accomplishment of such a difficult task. We can still, in a certain sense, understand the justifiability of granting licenses to the construction-assembly enterprises themselves, those such as CHEMOBUDOWA-Krakow, or NAFTOBUDOWA-Krakow, which, having an impressive production potential, can, on their own, fulfill construction contracts outside the country. However, in no way can this be said in relation to the various types of export offices who have recently taken on the role of intermediaries for such past associations as EXBUD-Kielce, INSTALEXPORT-Warsaw, MOSTO-STALEXPORT-Warsaw, and others, who have now been granted licenses for some unknown reasons.

The decisions of the Minister of Foreign Trade in regard to such units means nothing more than that several new foreign-trade enterprises have been established, whose activities are close, or even identical, to those of existing enterprises, with all of the consequences that ensue from this. And so firstly, these new units, in wanting to ensure their existence, will be forced to seek the contractors they need from among the same construction-assembly enterprises which have been for years working together with such foreign-trade enterprises as BUDIMEX or POLIMEX-CEKOP. Secondly, they will begin, on their own, to organize their own sales network on the foreign markets, spending large amounts of foreign exchange for this purpose, which in the country's present difficult payments situation is entirely senseless. Meanwhile, the "old" foreign-trade enterprises already have all of this behind them, and their trade potential is not being fully utilized because of the poor economic conditions in construction throughout the world. That is why it seems to me that in this field, the Ministry of Foreign Trade went too far.

We should absolutely stop this process of the deconcentration of construction services export because it is not bringing any benefits to the country, and on the contrary, it is bringing losses. We should review the licenses already granted, at least from the standpoint of the economic efficiency of this export. And where glaring improprieties are found, and undoubtedly there are some, the licenses should be revoked. There should be no leniency here, because otherwise all of us, the citizens of this country, will have to bear the consequences.

Comments of Planning Official

Warsaw RYNKI ZAGRANICZNE in Polish No 72, 16 Jun 83 pp 8, 6

[Interview with Stanislaw Dlugosz, assistant chairman of the Council of Ministers Planning Commission, by M. Tekielski; date and place not specified]

[Text] [Question] M. Tekielski: At the turn of 1982-1983 additional, only "cosmetic", changes were made in the area of economic reform. It was perhaps correctly assumed at that time that the participants in economic activity must first accustom themselves to the mechanisms and instruments for control of foreign trade that have already been introduced. Nevertheless, for a long time now a discussion has been taking place on further improvements to the shape of reform. In what direction is this going?

[Answer] Stanislaw Dlugosz: I would like to remind that 1982 brought many innovations to foreign trade with the application of economic reform. It was decided,

correctly, not to make any abrupt changes in 1983, but to consolidate the functioning of the proven instruments through evolution, and at the same time, to improve those solutions which have shown themselves to be inadequate. Thus the impression may be had that these changes are only of a cosmetic nature. But at the same time, thanks to these changes, time was gained during which it was possible to calmly consider how these instruments could be better improved and how they could be brought closer to the ultimate solutions of reform.

At present a very broad discussion on the subject of the instruments for controlling foreign trade is taking place in the professional foreign-trade circles, both among the scientists and the practitioners. I am referring here particularly to the reports prepared by the Advisory Council, the Institute of Trends and Prices in Foreign Trade, and much of the work done in the Ministry of Foreign Trade and by us, in the Planning Commission. The ideas presented in them are very scattered and it will be difficult to execute the elements that they have in common. Some of these ideas have also been discussed in Group 8 of the Commission on Reform.

[Question] And what are the main problems?

[Answer] There are three main problems which have not yet been finally solved on the scale of the entire economy: prices, exchange-rate policy, and equalization calculation.

Insofar as prices are concerned, there are two ways of solving this problem. The same system of prices is used between foreign trade and the national economy as is used "inside" the economy, or an autonomous method is used, as we did immediately after the war, for example, when there were two different price systems and a price-difference calculation, which constituted a junctim or an insulator between these two systems.

We have decided, and perhaps correctly, to apply a uniform system of prices between foreign trade and our domestic operations. There is still a certain amount of confusion here, arising from the fact that from the very beginning a dualism of exchange rates occurred: 80 zlotys to a dollar in export and 50 zlotys to a dollar in converting basic producer-goods prices in import. Now these exchange rates are beginning to equalize. On one hand, by applying domestic prices to those in effect on the market, and on other other hand a decline in raw materials prices on the world market is being noted, thus there is a tendency for producer-goods prices expressed in zlotys to come closer to the foreign exchange prices converted according to the exchange rate.

I believe that we should consistently hold to the accepted assumptions and not introduce autonomous settlement of accounts into foreign trade, but rather we should attempt to improve the price system in the country.

[Question] How, in this context, are we to understand the striving for broader application of transactional prices in settlement of accounts with foreign trade, which offer the advantage that they bring the domestic partners closer to the prices prevailing on the foreign markets and to the results obtained from export?

[Answer] This is linked to the general philosophy of an equalization computation, to which I will come later. Insofar as transactional prices are concerned, new problems arise. I agree with the principle of establishing domestic prices based on world-market prices, but with certain exceptions. For example, those raw materials and fuels which we import-- on more favorable conditions than on world-market prices, from the socialist states, mainly from the Soviet Union. If, for example, we import crude oil, cotton, or iron ore in predominating amounts from the first payments area [socialist countries], then the question arises whether it is right to apply second payments area [capitalist countries] prices to this import, and whether the argument that by so doing the producer or consumer is forced to economize is of the greatest importance in this matter. Personally, I lean toward the view that we should take advantage of the ability to obtain raw materials and fuels at a lower price from the first payments area and thus influence the costs of the functioning of our economy.

We have generally accepted the principle that the prices of imported commodities should not be lower than domestic prices.

[Question] And perhaps lower than the prices of the more expensive producers, to eliminate cases, which still occur, where foreign-trade commodities are cheaper than similar domestic production, which puts pressure on import.

[Answer] True. However there is still another "but" here. There may be situations in the balance of payments, although this may not be very near, when it will be desirable from the standpoint of public interest to import cheap foreign commodities, particularly consumer goods, by which we can exert influence on the producer to lower prices, particularly contract prices.

[Question] In food items, for example, tomatoes from Bulgaria, such a situation exists now.

[Answer] Of course. What I am concerned about is that we expand this possibility in the future to the consumer market for industrial articles, which is contending with the greatest difficulties.

In export, however, we can accept the principle of transaction prices, but not as an autonomous principle, only as an amount that affects the producer along with the equalization computation. If the transaction price is higher than the price obtained domestically, then all is well, since the producer then has the right incentive in the form of additional profit. But if the transaction price is lower, and this can happen, then, after all, with the market as hungry as it is now no one will want to export at transaction prices, apart from some extreme cases where a producer is so interested in obtaining a foreign-exchange allowance that he will export at any price. In such cases the transaction price must come through the equalization computation, directly to the consumer, and not stop at the foreign trade enterprise.

I believe that there can be no talk about improving prices in foreign trade. In reform we should assume that prices are improved in the domestic economy, and that prices in foreign trade and equalization computation are the outgrowth of that.

I am, however, very strongly against autonomization of prices in foreign trade.

[Question] The problem, which really from the very beginning of the discussion on reform aroused the most emotion, is the exchange-rate policy. We can probably say that the temperature of the discussion on this subject has not dropped greatly to this day. We are hearing the dominating voices on the need to raise the foreign-exchange rate even more clearly today, and the steady growth of costs in the country has furnished the advocates of this raise with new arguments.

[Answer] I would begin with this: Regardless of what is being thought and said, in Poland we already have an exchange-rate policy, despite the fact that many of its beneficiaries are not satisfied with it. The signs of this policy are the "floating" of the exchange rate of the dollar, and the stabilization of the exchange rate of the ruble. Furthermore, the matter of the exchange rate is beginning to reach the awareness of all of those involved in foreign trade, although the problem of the exchange rate is not necessarily understood correctly. The greatest mistake that is being made is in reasoning that the exchange rate "gives" profitability. The fact is that profitability must result from a specific cost structure, size of production, and ability to sell. The exchange rate, on the other hand, serves as a comparison of conditions of operation in the country and abroad. The reasoning that: "let us raise the exchange rate, then we will have profitability", is, in some measure, absurd. We could reach an exchange rate of 400 zlotys per dollar, for example, and the problem of profitability will disappear, but what kind of effect will this have on the national economy.

[Question] But the Council of Ministers resolution instituting new foreign exchange rates specified certain conditions which the foreign exchange rate must meet; that is, it was to guarantee profitability of at least 75 percent of export. This condition has not always been met during the recent period.

[Answer] Fixing a submarginal exchange rate at a level no lower than 75 percent profitability of export was correct under prevailing conditions, since at the moment neither the supply-demand formula of the exchange rate, nor the acceptance of an exchange rate of the balance of payments enters into the question. The formula accepted provides a yardstick that is easy to understand and control. Fixing the exchange rate at that level immediately brings in two facts: First, that there will be export that is unprofitable, and that equalization computation must be applied.

The exchange rate should be raised. The assumptions of the plan for 1983 show that there will be a price increase on the order of 15 percent, and this means that costs in the national economy will rise, and therefore, in export production also. I believe that a change in the exchange rate should in no case take place before the cost indicator envisaged in the plan is reached. The final decisions in this matter should be timed so that the new exchange rate can be applied at the mid-year.

Incidentally, I would like to say that the figures from the first few months of this year show a very interesting phenomenon, namely that the efficiency indicators for export to the first and second payments areas are more favorable, and by several points, than they were last year.

[Question] This is really quite surprising. After all, there was undoubtedly a growth in costs in the meanwhile. What could be the reason for this?

[Answer] In my opinion this is the result, most likely, of the fact that the price-cost services in the foreign trade enterprises and production plants have become more active and--I hope I am not wrong--that cost discipline is beginning to improve.

[Question] From what you just said it appears that it is proper that so much is being said in our present discussions on putting greater stress on raising the efficiency of export, since the reserves hidden here may be considerable.

[Answer] For many years we did not have objective economic criteria, or even accounting efficiency. Everything was done by calculation, i.e., simply in addition to calculation of zlotys, the more conscientious employee in foreign trade kept his own foreign-exchange account in order to have a better idea as to what the foreign-exchange cost of the exported commodity was. But when we decided that the system of domestic prices should become an objective system, which did not come about, the matter of a calculational verification of export prices became only an auxiliary instrument in the exporter's operations. For all practical purposes, it was conducted only where equalization computation was being applied.

Now, within the framework of reform, there is no going back to calculational methods as being generally binding, although probably the more conscientious workers still apply it, in order to know what the competition is doing. In this situation, intermediate instruments must be sought to improve efficiency. There are two ideas here; first, linking the degree to which equalization computation is used to the amount of profitability, by way of increasing tax-reduction rates according to the degree of export profitability. And this matter can probably be solved as early as the beginning of 1984. The second idea, however, now under lively discussion, links the amounts of the foreign-exchange allowance rates with the profitability of export. This idea is regarded with great caution, because there is the general conviction--perhaps a little exaggerated--that foreign-exchange allowance accounts are now the only pro-export stimulant, and their effect on maximizing export should not be weakened.

[Question] It is also demanded rather frequently that there be more standardization of foreign-exchange allowance rates, which are now very differentiated and are fixed, as a rule, at the level of the direct import-intensiveness of export production, and therefore, it is said, they petrify the present, not always rational structure of our export. Are any changes being anticipated in this regard from the first of the year?

[Answer] The mechanism of foreign-exchange allowance accounts, as I mentioned, is surrounded by exaggerated care. In speaking about them one must mention the advisability, now being studied, of changing the foreign-exchange allowance account from an evidentiary account into an assets account, if the holder so desires. I am in favor of this. I also totally agree with the thesis that the foreign-exchange allowance account mechanism must be gradually tied to the profitability of export, and also that individual fixing of allowance rates should be discontinued. It may be that in 1984 it will not yet be possible to aggregate the rates, but certainly they will be verified, because basing them on import-intensiveness, as was done initially, turned out to be incorrect. It must also be admitted that many of these rates were set in great haste, under the most various kinds of pressures, and not always on the basis of sufficiently accurate and proven data.

In speaking about foreign-exchange allowance accounts, we should call attention to the fact that an increasingly larger part of import from the second payments area [capitalist countries] is financed from this source. Although in 1982 this covered only several percent, this year it is already estimated at 15-20 percent. We want to continue this tendency in 1984 and 1985, and personally I foresee that next year approximately 30 percent of import should be financed from foreign-exchange allowance accounts.

[Question] That is, the verification of foreign-exchange allowance rates would go "upwards", since now the average allowance amounts to about 20 percent?

[Answer] I believe that verification should go upwards, but on the assumption that at the same time the list of imports that are centrally financed will be shortened, and that these imports will be restricted to those that are really strategic from the economic standpoint--commodities such as iron ore, crude oil, metallurgy additives, raw materials for plastic production, paints and lacquers--that is, those means of production which are necessary for the entire economy and not just for specific plants or even branches of production.

The second problem to which I would like to call attention is that of greater discipline of expenditures from foreign-exchange allowance accounts. I do not want to say by this that they are being expended unreasonably. According to information from the Ministry of Foreign Trade, the percentage of unreasonable decisions is minimal. What I am referring to is that the holder of the foreign-exchange allowance accounts should first of all finance the import of raw and other materials and spare parts, and not rush to modernize while another plant has problems in obtaining raw materials.

Thirdly, I am an advocate of maximum flexibility in the functioning of foreign-exchange allowance accounts, and of the ability to transfer funds not only between the holders of the accounts and the coproducers, but also the other partners.

[Question] Still the Minister of Finances recently reminded everyone clearly that funds from foreign-exchange allowance accounts can be transferred only to coproducers who are contributing directly to export production.

[Answer] This matter is now in the discussion phase. The Minister of Finances had to issue an applicable communique because occurrences in this field began to show lack of restraint. For example, foreign-exchange input was demanded for production which had never been based on any import from the second payments area [capitalist countries]. In setting this in order, mechanisms must be found which will allow greater flexibility in the use of foreign-exchange allowances, i.e., not just between the producer and his coproducer in export production.

[Question] Speaking about supplying the economy with more foreign exchange, I would like to ask you about your first impressions on the experimental foreign-exchange auctions. Personally, I have been struck by the relatively small interest in these auctions on the part of potential participants.

[Answer] I must admit that I am a little disappointed. But for me this is also something of an indictment of our industry. If, after years of talk about the proverbial imported washer, the lack of which made it impossible to attain enormous

economic benefits, and now that the specified sums were made available so little interest was shown, it would seem to mean that the entire problem of the imported washer was fictitious.

There is a certain amount of rigidity in the auction mechanism, but I call attention to the fact that this is an experiment which is supposed only to furnish material to perfect the system. We know already that the auction should not have been restricted only to the state enterprises, but that other socialized enterprises should have been allowed entry. However, I believe that the demand that foreign-exchange allowance account holders be admitted is improper. The poor interest in the auctions may also be a sign that in spite of all of the wailing, access to foreign-exchange funds distributed from the central pool is still too easy.

[Question] Would the possibilities of reselling foreign-exchange allowances have led to the formation of something on the order of a foreign-exchange Exchange?

[Answer] It would be premature to talk about an Exchange and I rather share the opinion of the opponents of a commercial foreign-currency exchange rate, e.g., in auctions, where the effectiveness results of foreign-currency operations should determine the allocation of foreign exchange. If the auction experiment is successful, then I believe that a much larger foreign-exchange pool will be allocated for distribution to meet the needs of those who have no export and therefore have no opportunities to take advantage of foreign-exchange allowances.

[Question] In Group 8 of the Commission for Economic Reform, work is being done on a concept of ruble allowances, i.e., ruble allowance accounts. Despite the fact that this work is somewhat far along, such basic questions are still being asked as, for example, the advisability of these accounts, which in view of the system of planning and coordinating trade turnovers with socialist partners will never be as flexible an instrument as the foreign-exchange allowance accounts.

[Answer] I am absolutely in favor of ruble allowance accounts. I am also familiar with the doubts expressed. But please note who is against the ruble allowance accounts--the administration, and who wants them--the enterprises. In addition, let us recall that during the experimental introduction of foreign-exchange allowance accounts in the middle of 1981, there were also many critical comments, and today they are praised very highly, although they too, have certain weaknesses.

I am an advocate of ruble allowance accounts because first, this is an experiment, and every experiment is something good within the framework of reform because it allows us to verify certain ideas. Furthermore, this is not a costly experiment. Second, there are no such rigid trade protocols today with socialist countries as there once were, particularly in relations with some countries, such as Hungary or Bulgaria. Therefore, sometimes unplanned purchases can be made much more rapidly than it seems, given a suitably flexible foreign-trade operation. But even if it were necessary to wait a year, the possibility of purchasing necessary investment equipment from socialist countries through ruble allowance account financing seems to be an attractive prospect for the producer. Third, we cannot act only under the pressure of the times--that we must now increase import from socialist

countries. In the next 5-year plan we must put great emphasis on export because we are going to be repaying our present indebtedness, and on the other hand, in my opinion, we have no alternative other than to stimulate economic cooperation within the socialist community. It may turn out then that the transferable ruble will be an uncommon good for our importer, and that this present relative ease in obtaining the ruble limit for import will not be something that will last into the future. In other words, we must accustom ourselves to the fact that socialist currency, too, must be earned, and that we cannot just wait to get it.

[Question] The export producers often complain that export demands greater dedication from them, that it is much more labor-intensive, that it requires greater concern, etc., resulting in higher production costs which are not sufficiently compensated by incentives for export production. Is it anticipated that more aggressive incentives for export production will be introduced, which, regardless of economic reasons, appear to me to be necessary from the psychological standpoint, since awareness of the need to export is still too low in our society.

[Answer] I totally agree with that. Truly, in public opinion export is still not considered to be an everyday necessity, but rather a necessary evil, and there are still many advocates of the incorrect thesis that export impoverishes the market. Such an attitude, however, is a reminiscence of the pampered, protected conditions under which industry operated in the past, or it is an argument put forth by passive, easygoing people who would like to see a monopoly maintained on the domestic market and do not see any need to develop their enterprises. They would like to manufacture their own product which can be easily sold on the domestic, and do not want to be bothered with export.

And meanwhile, export to capitalist countries under increasingly more difficult economic conditions, makes it necessary to struggle very hard to maintain quality, on-schedule deliveries, and service. On the other hand, do we have any other developmental prospects than export of highly-processed goods? After all, we will not be able to increase the export of raw materials or food for a good many years.

[Question] Perhaps this would be an argument precisely in favor of creating more favorable conditions and stronger incentives for export.

[Answer] Whether existing incentives are sufficiently aggressive or whether they can be strengthened is a question which remains to be decided. But there are a goodly number of incentives. It is generally acknowledged that the most aggressive pro-export instrument are the foreign-exchange allowance accounts, since they give enterprises access to the rarest asset that we have, and these are foreign-exchange funds. There are also tax allowances. This is also a new phenomenon. After all, we are just learning about the effect of taxes on enterprises in reform. Until 1982, taxes, for all practical purposes, were not of great significance in our economy. We must wait at least 2 or 3 years to see how far we should go in increasing income-tax allowances, or deductions for the Vocational Activization Fund (FAZ), if it still exists in the future.

The third such element will be the ruble allowance accounts, and their main purpose as presently conceived is not maximization of export, but a struggle for export efficiency, and that is how these accounts differ primarily from the foreign-exchange allowance accounts, whose purpose from the very beginning was to maximize exports.

There is, finally, an entire mechanism of awards and prizes available to the Minister of Foreign Trade, and I believe that this should be retained because it has always been a very effective instrument.

There was also the idea of allocating profits from export, but most of the export community is against this. There is also the entire equalization computation, which not only levels out the losses, but frequently acts as a stimulant to export.

[Question] Is it expected that obtainment of credits will become easier?

[Answer] In the past we had quick-profitability credits. Documents are being prepared which are aimed at granting credits not only for modernization and for the purchase of investment means, but also turnover credits, for example, to finance certain coproduction transactions on the basis of short-term credit combined with the inclusion of amounts due for our export, which constitutes a guarantee that this credit will be repaid.

[Question] What I had in mind was facilitation of credit in our own country for export production, which often has a longer financing cycle than domestic production and creates a greater demand for expensive turnover credits.

[Answer] I believe that one of the greatest dangers for reform is the growing demand for reduced rates and eases. They are meaningful only when they are an exception. On the other hand, if we provide a large range of reductions and eases, then in a short time there will be simply more exceptions than mechanisms.

[Question] For everyone today it is important to familiarize oneself as quickly as possible with the future regulations so as to be able to prepare for and adapt to the future conditions. When can we expect that the work now being done will appear in the form of regulations and orders?

[Answer] I do not want to play prophet. Very intensive work is now going on, primarily in the office of the government's representative on economic reform matters. I envisage, and this is rather pessimistic, that by September all of the various legal acts will appear, and at least a quarter ahead of time we will all know that we can expect in 1984, and probably also in 1985.

[Interviewer] Thank you for the interview.

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STATUS OF SELF-MANAGEMENT AT MACHINE TOOLS PLANT EXAMINED

Warsaw RZECZPOSPOLITA in Polish 19 Aug 83 p 3

[Article by Andrzej Golaszewski: "The Meanders of Independence. Pruszkow's 'Mechanics': Reform and Self-Management"]

[Text] Self-management is approached cautiously in Pruszkow's Mechanics Machine Tool Plant. In the middle of last year, in a referendum conducted in the plant, the employees voted against the decision to reactivate the workers' council. Nevertheless, self-management was established. It began its activities after the suspension of the state of war.

Chairman of the workers' council, engineer Jozef Wolski and his deputy, engineer Mieczyslaw Nicewicz justify this not only with reference to the normalization of the political situation, but also by the need to fill the gap between the management and the workers, and by the desire to oppose unpopular statutory decisions. This concerns such issues as doing away with the thirteenth salary and with the incentive and profits funds, or the principle of decreasing bonuses for every absence from work because of illness.

"The very first resolution of the workers' council, after it was reactivated, suspended this last regulation," says Nicewicz. "It turns out that absenteeism did not decline at all after this rule was put in effect. The repercussions were felt mainly by older skilled workers, who comprise a majority of employees since it takes several years to learn the trade here. These kinds of restrictions and threats of the loss of bonuses do not make much of an impression on young people. They do not have families to support, they have a different consciousness and a different attitude towards work.

Spiral of Conflict

The two parties to the conflict were engineering and the shop, as they are called here, or, in other words, the technological services and workers employed directly in production. The conflict developed during the second half of the year when there was full cooperative supply from imports, and the management, exploiting the fact of the militarization of the plant, ordered

work on free Saturdays. In any case, even before that, workers in production worked 12-hour days. As a result they received significant raises and prizes. The conflict centered on the division of export bonuses.

The self-management decided that those employed directly in production should be given preference in bonuses according to the amount of work they put in. The technological services protested to the management claiming that they are being discriminated against. The situation in the plant was tense. In order to prevent further conflicts, the director decided to allocate to the technological services some of the funds that remained under his disposition from reserves designated to stimulate exports during the current year. The irritant was removed but the problem remained.

The workforce--or at least a certain part of it--thinks like this: we support self-management, a democratic process of decisionmaking. But there will always be those who are dissatisfied and they will complain about our decisions to the management. This implies a particular understanding of plant democracy and signals an inability to subordinate oneself to decisions of a social group, such as the workers' council, and a faith in the power of the administration. All of this is important because if it is to fulfill the plan for the current year, Mechanics lacks 50 workers to be employed directly in production. Therefore, in the last quarter of this year, the problem of overtime will reappear, and along with it, the problem of awarding bonuses to those who sacrificed additional time to the factory. And again there will be those who will not be satisfied. The problem exists.

This Year It Will Be Different

"We do have our trade union," says its chairman, Wacław Pietkowski, a worker in the department of frame elements machining.

It is a fact that there is a shortage of specialists able to operate the machines, but the union will not agree to a forced extension of the workday or to an artificial levelling of wages. People have to be encouraged to work overtime by other means. Or the technologists can help out at the shop, even if only for half a workday on free Saturdays. Until now this has not been successful.

There is a psychological barrier which does not let people who have already left the shop and gone to work at a desk, to return to the shop, to production even if it is only for a short time. But at the same time, it is known in the plant that there are some employees who work with machines after their work hours, in private firms where wages are incomparably higher than at Mechanics.

How can one stop the conflict which might reappear again at the end of the year, and which might now involve another party, the previously nonexistent trade union. The workers' council believes that the problem cannot be solved separately from other problems existing in the plant and that it has to be approached on a broad basis. Above all, the factory has to be assured of an influx of young workers drawn from the class of students already

working at the plant. Optimal employment must also be taken care of. On the basis of the plan for 1984, the workers' council wants to conduct a review of the workforce, starting with the lowest laborer positions and extending all the way up to the management. Proper wage ratios or remuneration for actual work are most important. Long-term thinking also counts.

When Will Reform Be Introduced?

Members of the workers' council are asked this question very often. The current opinion is that the reform began with prices rather than with remuneration or with the system of management. Because of this the self-management is not truly self-management and it cannot find a place for itself among all the regulations imposed from above.

"We are self-managing as far as mobilizing people to work is concerned," it is being said at Mechanics. "But beside that? We know the role that remuneration plays, and yet the thirteenth salary was eliminated from above and nobody even asked whether it should be retained. The maximum wage of 40 zloty per hour was introduced. A woman who does weeding for a private vegetable grower gets 150 zlotys. Forty zlotys might at most serve as a motivation for somebody to leave a job in a state-owned plant. The plant has to manage somehow in order to remain competitive. Thus, we are paying from the additional funds, from the endowment in order to provide a specialist--such as a highly qualified operator of a boring machine--with an income appropriate to his abilities and productivity."

The Mechanics workers also feel that their independence is limited. "Our machine tools and machine tool centers are sold abroad by Metalexport, but inside Poland we would like to do this ourselves," says Engineer Wolski. "There is, however, a company serving as a middleman inside the country, Bipron, which on the order from above is to serve as an intermediary in our transactions." In practice, this means that for a sale of a machine tool center worth 20 million zlotys, the middleman takes one million. Mechanics could include this sum in their own costs, but the plant is not interested in increasing prices to a maximum because it needs to remain competitive. Is that why Bipron gains and they are losing? Members of the workers' council claim that such intermediaries are purely bureaucratic set-ups, since last year, when there were problems with the sale of digitally controlled machine tools, they were told to look for clients by themselves.

Another issue is the department's claim that the central distribution of funds for investment is a necessity. My interlocutors say that this clashes with the principles of the economic reform, but if it is to be this way, then the department should indicate who will need our products in a given year and we will sell them ourselves, without paying a commission to the middleman. "We question the imposition of partners," adds Engineer Nicewicz. "Often we have to buy or sell something, but we want to have the possibility of choosing our contractors, of imposing responsibilities on ourselves, rather than having them imposed from above."

Rules of the Game

Paradoxes of the reform lie also in the fact that the enterprises often do not know what is better: self-management or its limitation. Pruszkow's factory did not join the association of the producers of machine tools and my interlocutors believe that it was a correct decision. They do not have to pay membership fees, there is less bureaucracy, it is not necessary to prepare additional reports. Economic results were also not worse than those of enterprises which belong to the association. Nevertheless, members of the workers' council feel worried and would gladly relinquish part of their independence.

Which part is that? It is the part which would result from their being included on a list of enterprises most crucial to the national economy. Mechanics, as the only plant in Poland which makes serial machine tool centers and the most modern machine tools in the world, should be included among enterprises covered by the patronage. They see this as a consequence of the decision not to join the association. This is why, knowing the rules of the game on the supply market, they fear preferences given to plants most crucial to the economy, preferences given in, for example, the distribution of materials or of foreign currency for next year.

They also know that rules and regulations change often, even in the middle of the fiscal year, and that introduces the necessity of changes in the plan. "This self management," they claim, "means that although we are the comanagers in the plant, we basically do not have what we have. For one thing, the rules of the game are fluid because of the general situation in the country, but for us, something else is important as well: in our own backyard we would like to participate in the game actively and honestly.

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